Data Release: Small and mid-sized business optimism plunges in February

- The CFIB’s business barometer fell by 4.4 points in February, bringing the index to 59.1. This follows a gain of 1.6 points in January and a sharp decline of 4 points in December. Today's level of confidence is well below the 65 point threshold that is consistent with the economy growing at its potential growth rate of about 2%. Compared to last year, confidence was down 5.3 points.

- Confidence continued to slump in energy-rich provinces. Alberta (-6.6 points to 48.2), Saskatchewan (-2.0 points to 53) and Newfoundland and Labrador (-4.1 points to 56.2) have been on a clear losing streak since October of last year. Meanwhile, Ontario (-7.8 points to 60), British Columbia (-2.6 points to 69.1) and Manitoba (-2.6 points to 54.5) also recorded significant declines in confidence. The Maritime Provinces and Quebec where the only provinces to record boosts in confidence in the range of 0.6 to 2.8 points. Together, British Columbia and the Maritime provinces are currently the most confident in the country. On the other hand, the Prairie provinces are the least optimistic.

- On a sectoral basis, business optimism declined in 9 out of 13 sectors. The most significant declines were recorded in professional and business services (-8.8 points to 60.8), manufacturing (-6.6 points to 60.1), retail (-6.5 points 56.9) and other services (-6.4 points to 63.3). Notable gains in confidence were recorded in construction (+5.3 points to 58.8) and hospitality (+4.6 points to 64.7). Only the financial and information sectors remain above the 65 point threshold.

Key Implications

- Average confidence so far this quarter (61.3) is well below the threshold that is consistent with the economy growing at its potential. This is in line with our expectations of real economic growth decelerating significantly to about 1% to 1.5% (annualized) this quarter, from an estimated 2.2% in Q4-2014.

- The regional divide between oil-producing and non-energy provinces continues to widen. Indeed, energy-rich provinces are expected to have the weakest economic growth profiles over the next two years on account of lower oil prices. On the other hand, non-energy exporting provinces are expected to benefit from an improving U.S. economy and a lower Canadian dollar. In addition, businesses and consumers will benefit from lower borrowing rates and cheaper transportation costs. For more information see our Provincial Forecast Update.

- In the very near term, all eyes will be on the March 4th interest rate decision meeting and business confidence will be one of the indicators to be factored into this decision. Confidence remains volatile but the continued trend over the past four months leaves little doubt that small and mid-sized business owners are feeling significantly less optimistic about the year ahead. That said, other indicators – such as oil prices firming up this month and inflation holding slightly above the Bank of Canada's forecast – suggest that the Bank is likely to keep rates unchanged next week.

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